



3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✗	✗
+ Positive = Neutral - Negative			

What has changed in 3R MATRIX

	Old		New
RS	✗	↔	✓
RQ	✗	↔	✓
RV	✗	↔	✓

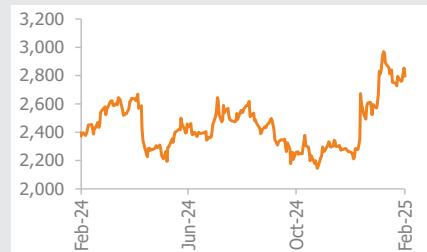
Company details

Market cap:	Rs. 82,863 cr
52-week high/low:	Rs. 2,995/2,089
NSE volume: (No of shares)	6.6 lakh
BSE code:	503806
NSE code:	SRF
Free float: (No of shares)	14.74 cr

Shareholding (%)

Promoters	50
FII	18
DII	18
Others	14

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	4.9	23.4	10.0	17.9
Relative to Sensex	9.3	31.7	20.9	16.7

Source: Mirae Asset Sharekhan Research, Bloomberg

SRF Ltd

Chemical business to lead growth; Maintain Buy

Speciality Chem

Sharekhan code: SRF

Reco/View: Buy



CMP: Rs. 2,795

Price Target: Rs. 3,350



Upgrade



Maintain



Downgrade

Summary

- SRF has turned things around after a slew of weak quarters and reported strong results in Q3.
- The chemical business is expected to further improve in Q4 with good traction in specialty chemicals.
- Specialty chemicals will do well with the launch of 6-7 AIs (active ingredients). In fluorochemicals, there is going to be good demand and pricing environment for ref gas.
- We maintain a Buy on SRF with an unchanged PT of Rs. 3,350. The stock is currently trading at 40x/29.4x its FY26/27 EPS.

SRF's fluorochemicals division shows strong demand with firm pricing. The company is investing Rs. 1,100 crore in less-polluting HFO (fourth generation) for FY28 launch. The specialty chemicals segment will grow with several new active ingredients launching soon and targets a 35-40% market share of the addressable market of \$1.2-1.4 bn. Chemical margins are improving and will be in the guided range of 25% with a 2-3% variance on either side. PTFE capacity utilization should improve by FY26, while anti-dumping duties will benefit the aluminium foil business.

Fluorochemicals: The ref gas demand continues to be strong. Pricing is also anticipated to stay firm. The company wants maximum possible HFC consumption quota in FY27, so the focus right now is on maximizing sales in the observation years (FY24/25/26). Company is investing Rs. 1,100 crore in HFO, which is the fourth generation of fluorine based gases. It is far less polluting than HFCs. Sales are likely to start in FY28 from export countries. In India, HFO adoption will happen after FY32.

Specialty chemicals: The segment will deliver good growth in Q4 and beyond with traction in newly launched products. 6-7 AIs (active ingredients) with a large TAM (some as large as \$150-450 mn) are to be launched in next 1-2 years. 2 AIs are in the testing phase currently. The total addressable market of these molecules is \$1.2-1.4 bn and SRF is targeting a 35-40% market share. Pharma intermediates share is ~8% of revenue in specialty chemicals with ~Rs. 300 crore revenue. Company aims to increase its revenue by 3x over three years. The chemical segment margins are going to improve in Q4 and be in the guided range of 25% (2-3% variance on either side). It is going to be better than the 9MFY25 EBIT margins of 21%.

Others: PTFE capacity is currently operating at ~50% utilization but is expected to pick up and do well in FY26. New products will also be launched in November 2026. The packaging business is continuing on a soft trajectory. In that, the aluminium foil business will improve going forward. It was facing production issues but it has been sorted out now. Implementation of anti dumping duty (ADD) on aluminium foil will help the company increase its utilization and profitability. Company plans to incur a capex of Rs. 1,500 crore in FY25 and Rs. 1,500-2,000 crore for FY26

Our Call

Valuation - Maintain Buy on SRF with an unchanged PT of Rs. 3,350: SRF's chemical business has underperformed in the last few quarters but its outlook has improved now with both specialty chemicals and fluorochemicals segment to contribute to growth. Investment in the right areas of specialty chemicals and good domestic demand for Ref gas in fluorochemicals will drive a 28% PAT CAGR over FY2024-FY2027. At CMP, the stock trades at a valuation of 40x/29.4x its FY26/27 EPS. We maintain our Buy rating on SRF with an unchanged price target (PT) of Rs. 3,350.

Key Risks

- Slower offtake from user industries and concerns about correction in product prices can affect revenue growth.
- Dumping by Chinese players in the market.

Valuation (Consolidated)

	Rs cr				
Particulars	FY23	FY24	FY25E	FY26E	FY27E
Revenue	14,870	13,139	14,616	16,953	19,729
OPM (%)	23.7	19.7	18.2	22.0	23.9
Adjusted PAT	2,162	1,336	1,266	2,069	2,822
% y-o-y growth	14.5	(38.2)	(5.2)	63.4	36.4
Adjusted EPS (Rs.)	72.9	45.1	42.7	69.8	95.2
P/E (x)	38.3	62.0	65.4	40.0	29.4
P/BV (x)	8.0	7.2	6.5	5.7	4.8
EV/EBITDA (x)	24.3	33.4	32.7	23.5	18.6
RoCE (%)	22.1	12.3	11.2	15.7	18.3
RoE (%)	22.9	12.3	10.5	15.2	17.6

Source: Company; Mirae Asset Sharekhan estimates

Outlook and Valuation

■ Sector Outlook – Structural growth drivers to propel sustained growth for the specialty chemical sector

We remain bullish on the medium to long-term growth prospects of the specialty chemicals sector, given a massive revenue opportunity from the perspective of import substitution, a potential rise in exports given China Plus One strategy followed by global customers and favorable government policies. We believe that conducive government policies, product innovation, massive export opportunities, and low input prices would help the sector report a high double-digit earnings growth trajectory on a sustained basis in the next 2-3 years over a depressed base.

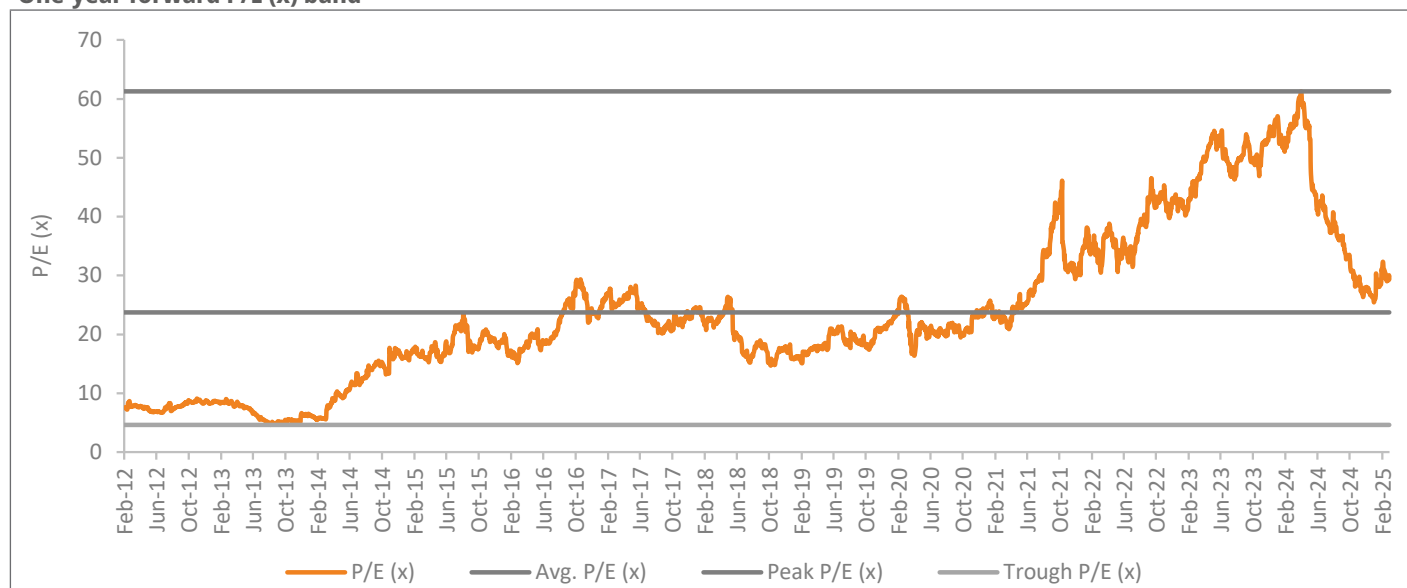
■ Company Outlook – Turnaround in the chemical business to drive growth

SRF's chemical business was sluggish for the past few quarters but things seem to be improving now. The spec chem business has good outlook from the new launched products of the company. Moreover, the management sees strong demand for HFCs in domestic market and Middle East with improving pricing. High capital intensity toward specialty chemicals makes us confident about the long-term revenue/earnings growth of SRF. Company is expected to report a 22%/28% CAGR of EBITDA/PAT over FY24-27.

■ Valuation – Maintain Buy on SRF with an unchanged PT of Rs. 3,350:

SRF's chemical business has underperformed in the last few quarters but its outlook has improved now with both specialty chemicals and fluorochemicals segment to contribute to growth. Investment in the right areas of specialty chemicals and good domestic demand for Ref gas in fluorochemicals will drive a 28% PAT CAGR over FY2024-FY2027. At CMP, the stock trades at a valuation of 40x/29.4x its FY26/27 EPS. We maintain our Buy rating on SRF with an unchanged price target (PT) of Rs. 3,350.

One-year forward P/E (x) band



Source: Company; Mirae Asset Sharekhan Research

About the company

Established in 1970, the company is a chemical-based multi-business entity engaged in the manufacturing of industrial and specialty intermediates. The company's diversified business portfolio covers technical textiles, chemicals (fluorochemicals and specialty chemicals), and packaging films. The company has 13 manufacturing plants in India, one in Thailand, one in South Africa, and one in Hungary. The company exports to more than 100 countries.

Investment theme

Favourable growth prospects in the chemical segment, led by both speciality chemicals and fluorochemicals. The spec chem business has good outlook from the new launched products of the company. Moreover, the management sees strong demand for HFCs in domestic market and Middle East with improving pricing. High capital intensity toward specialty chemicals makes us confident about the long-term revenue/earnings growth of SRF. Moreover, the structural growth opportunity for the Indian specialty chemicals sector, given favourable dynamics (China Plus One strategy by global companies) to support premium valuation for quality players like SRF.

Key Risks

- ♦ Slowdown in demand offtake from user industries and concerns over product price correction can impact revenue growth.
- ♦ Dumping by Chinese players in the market

Additional Data

Key management personnel

Ashish Bharat Ram	Chairman & Managing Director
Kartik Bharat Ram	Joint Managing Director
Prashant Yadav	President and CEO, Fluorochemicals Business & Technical Textiles
Anurag Jain	President and CEO, Specialty Chemicals Business & Chemicals Technology Group
Prashant Mehra	President & CEO, Packaging Films Business, Coated & Laminated Fabrics Business
Rahul Jain	Chief Financial Officer
Rajat Lakhanpal	Company Secretary and Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	5.03
2	Kotak Mahindra Asset Management Co	3.7
3	Amansa Holdings Pvt Ltd	3.2
4	Mirae Asset Financial Group	2.16
5	GOVERNMENT PENSION FUND - GLOBAL	2.05
6	Vanguard Group Inc/The	1.94
7	Norges Bank	1.79
8	Blackrock Inc	1.6
9	GOVERNMENT OF SINGAPORE	1.34
10	FundRock Management Co SA	1.18

Source: Bloomberg

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Understanding the Mirae Asset Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Mirae Asset Sharekhan Research

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